

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

March 22, 2006

8:34 a.m.

MEMBERS PRESENT

Representative Bill Thomas, Co-Chair
Representative John Harris
Representative Jim Elkins
Representative Peggy Wilson
Representative Mary Kapsner
Representative Woodie Salmon

MEMBERS ABSENT

Representative Gabrielle LeDoux, Co-Chair

COMMITTEE CALENDAR

HOUSE BILL NO. 304

"An Act relating to the commercial fishing loan program; and providing for an effective date."

- MOVED CSHB 304(FSH) OUT OF COMMITTEE

HOUSE BILL NO. 484

"An Act allowing for revenue received from issuance of additional entry permits to be appropriated for reimbursement to salmon fishery associations."

- MOVED CSHB 484(FSH) OUT OF COMMITTEE

PREVIOUS COMMITTEE ACTION

BILL: HB 304

SHORT TITLE: COMMERCIAL FISHING LOAN PROGRAM

SPONSOR(S): REPRESENTATIVE(S) COGHILL

05/07/05 (H) READ THE FIRST TIME - REFERRALS

05/07/05 (H) FSH, RES, FIN

03/22/06 (H) FSH AT 8:30 AM CAPITOL 124

BILL: HB 484

SHORT TITLE: FISHERY ASSOCIATION REIMBURSEMENT

SPONSOR(S): REPRESENTATIVE(S) WILSON

02/13/06 (H) READ THE FIRST TIME - REFERRALS
02/13/06 (H) FSH, RES, FIN
03/22/06 (H) FSH AT 8:30 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE JOHN COGHILL
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 304, as sponsor.

GREG WINEGAR, Director
Division of Investments
Department of Commerce, Community, & Economic Development
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 304.

GERALD MCCUNE, Lobbyist
United Fishermen of Alaska (UFA)
and Southeast Alaska Gillnetters
Cordova, Alaska

POSITION STATEMENT: Testified offering non-official support for
CSHB 304, Version I.

BOB THORSTENSON, Lobbyist
Southeast Alaska Seiners Association;
President, United Fishermen of Alaska
Juneau, Alaska

POSITION STATEMENT: Responded to questions on CSHB 304, Version
I, and in support of HB 484.

LELA KLINGERT, CEO
Commercial Fishing and Agriculture Bank (CFAB)
Anchorage, Alaska

POSITION STATEMENT: Testified on HB 304.

REPRESENTATIVE PEGGY WILSON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 484 as prime sponsor.

FRANK HOMAN, Chairman/Commissioner
Commercial Fisheries Entry Commission (CFEC)
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 484.

ACTION NARRATIVE

CO-CHAIR BILL THOMAS called the House Special Committee on Fisheries meeting to order at [8:34:17 AM](#). Representatives Salmon, Elkins, Wilson, and Thomas were present at the call to order. Representatives Kapsner and Harris arrived as the meeting was in progress.

HB 304-COMMERCIAL FISHING LOAN PROGRAM

[8:34:41 AM](#)

CO-CHAIR THOMAS announced that the first order of business would be HOUSE BILL NO. 304, "An Act relating to the commercial fishing loan program; and providing for an effective date."

[8:35:33 AM](#)

REPRESENTATIVE WILSON moved to adopt CSHB 304, Version 24-LS0523\I, Kane, 2/28/06. There being no objection, Version I was before the committee.

[8:36:02 AM](#)

REPRESENTATIVE JOHN COGHILL, Alaska state Legislature, presented HB 304, as sponsor, paraphrasing from the sponsor statement, which read as follows [original punctuation provided]:

This bill is a product of my philosophical belief that government should not compete with the private sector. I want to make sure that any loan program the State administers is the source of last resort.

This bill would require someone applying for a loan through the Commercial Fishing Resolving Loan Fund (CFRLF) for repair, restoration, or upgrading of vessels and gear, for the purchase of entry permits and gear, and for construction and purchase of vessels to be ineligible for financing from other recognized commercial lending institutions. While the division currently utilizes this practice I want it codify it to make it a permanent statutory requirement.

HB 304 reduces the amount of loans for refinancing a debt to \$200,000 per person, down from \$300,000. It increases the loan limit for past due federal tax obligations to \$35,000. And it limits all loans, including purchase of entry permits and gear, vessel

purchases, repair of existing vessels, and federal tax debt for one person to \$335,000. The bill reduces security of a loan from 90% to 80% of the appraised value of the collateral. It adjusts the interest rate to the prime rate plus two percentage points. The interest rate currently is a maximum of 10.5%

This bill has been a work in progress. I have been working with the department diligently for the last year to clarify and tighten requirements in the Commercial Fishing Revolving Loan Program.

[8:41:12 AM](#)

REPRESENTATIVE COGHILL moved Amendment 1, which read:

Page 2, line 10,
After "commercial fishing;"
Insert: "or"

Page 2, line 13,
Delete: "or"
Insert: "and"

[8:42:14 AM](#)

REPRESENTATIVE ELKINS moved to adopt Amendment 1. There being no objection, Amendment 1, was adopted.

REPRESENTATIVE ELKINS asked whether it would be advisable for the state to maintain a loan guarantee service versus loaning money, and if so how would that be approached.

REPRESENTATIVE COGHILL stated that he had suggested turning this service into a grant program, but it is important for individuals to be allowed an opportunity to service their debt, and this program offers a "last resort" option. In some ways, he conjectured, it is like a guarantee program with the refinance possibilities and flexibilities that would not be available in banking institutions.

[8:43:43 AM](#)

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community, & Economic Development (DCCED), stated that the division supports Version I. He provided some background to the program, which began in the 1970's to ensure financial

opportunities to the fishing fleet. He pointed out the attached fiscal note indicating a minimal fiscal impact, and assured the committee that Amendment 1 maintains the intent of the bill.

REPRESENTATIVE HARRIS asked how much money is in the commercial fishing revolving loan fund.

MR. WINEGAR responded about \$81 million was in the portfolio at the end of fiscal year (FY) 2005, and additionally \$27 million in cash; an amount which fluctuates throughout the year.

[8:45:49 AM](#)

REPRESENTATIVE HARRIS asked for the rate of repayment.

MR. WINEGAR responded that the delinquency rate is approximately 5 percent, 6.4 if loan defaults are included, and many of those loan holders are currently working on extensions; this is a high risk portfolio with a highly acceptable delinquency rate.

REPRESENTATIVE HARRIS inquired whether loans are extended to seafood processors.

MR. WINEGAR stated that product quality improvement loans are made to tenders under this program, and there are two small business programs which provide loans to processors; separate from the commercial fishing loan program.

[8:46:43 AM](#)

REPRESENTATIVE HARRIS asked if general funds have been "put back into this" in the last ten years for stabilization purposes.

MR. WINEGAR said that initially, approximately \$60 million was transferred into the program in the 1970's and the early 1980's, but no funding has been added to it since FY 85. Further, he stated that \$60 million "went in," and, over the years, \$93 million has been transferred back out, of which \$52 million returned directly to the general fund. He also responded that this is a self sufficient program, which continues to "make money." The fishermen benefit from this profitable fund through the availability of low interest loans and flexible extension procedures, established by the legislature. To further questions, he responded that a part of the loan program allows for loans to pay taxes, particularly if a situation arises in which a fisherman is in jeopardy of losing their limited entry permit to the Internal Revenue Service (IRS).

REPRESENTATIVE HARRIS asked whether there is a current provision which allows the state to buy back limited entry permits.

MR. WINEGAR stated, "Not that I'm aware of, we don't have any buy back program ... at all."

[8:49:04 AM](#)

REPRESENTATIVE WILSON stated her understanding that in years past the surplus funds of this program have been used to help balance the general fund.

MR. WINEGAR confirmed Representative Wilson's understanding and stated that in FY 2006, \$1.96 million, from this fund, will be directed to the Alaska Department of Fish & Game(ADF&G) budget, and a similar amount was provided to ADF&G in FY 2005. He pointed out that, besides the interest earnings, the cash in the fund also generates income, ranging from \$1.5 to \$2.0 million, which goes directly to the general fund.

REPRESENTATIVE WILSON commented:

This is a wonderful program. The fact that fishermen can come to you and get a loan. ... There's no where else that a fisherman can go in a world of changing markets and ... [uncertain] fish returns. ... It's a wonderful program and I'm very concerned that this program stays intact and continues doing the job for my constituents, ... it does a fantastic job.

[8:51:07 AM](#)

REPRESENTATIVE HARRIS asked to hear the opinion of the commercial fisheries industry on HB 304.

[8:51:52 AM](#)

GERALD MCCUNE, Lobbyist, United Fishermen of Alaska, and Southeast Alaska Gillnetters, stated a non-official position of support from the board for Version I.

REPRESENTATIVE HARRIS said that the bill will reduce the loan amount limit to a fisherman from \$300,000 to \$200,000, along with a few other changes. He expressed surprise that the fishermen are not concerned about these changes.

CO-CHAIR THOMAS offered that it raises the required loan collateral from 90 to 80 percent.

MR. MCCUNE clarified that the original version of HB 304 was opposed. However, he said with the CS the loan program will still provide opportunities to fishermen who do not have a "track record," and cannot obtain a conventional bank loan, to get started in the industry; the original intent of the fund.

[8:56:20 AM](#)

BOB THORSTENSON, President United Fishermen of Alaska (UFA), characterized the CS as an improvement over the original bill. He stated that there will be some concerns from fishermen when the UFA board convenes, regarding the lowered loan amount and the increased collateral requirement. However, he said, "The verdict is definitely not in"

REPRESENTATIVE COGHILL said that \$300,000 will be available for a full loan, and the \$200,000 limit applies to refinancing.

[8:59:02 AM](#)

REPRESENTATIVE HARRIS asked if the intent of this bill is to help prevent people from amassing an unmanageable debt.

REPRESENTATIVE COGHILL stated, "My original intent was to take Division of Investments out of the banking business entirely." However, the arguments have proven that there is a need for this type of loan option. The only other alternative for this type of loan, in the state, is the Commercial Fishing and Agriculture Bank (CFAB). Hence, the focus has changed in the CS and now serves to "tighten things up a little bit."

CO-CHAIR THOMAS provided a personal experience with CFAB not extending him a loan when he needed one, despite his 15 years of fishing experience.

[9:01:28 AM](#)

REPRESENTATIVE WILSON asked how the sponsor would expect a fisherman to cope with a refinance situation if they should fall between the \$200,000 and \$300,000 amounts.

REPRESENTATIVE COGHILL responded that the terms become more generous and flexible once the loan is obtained. He explained that options for refinancing are broad, however, if the

refinancing amount is high, then the ability to service the debt creates a difficulty over a longer period of time.

REPRESENTATIVE WILSON expressed concern for a novice fisherman, entering a volatile industry, who stands to go out of business if they can't qualify for a loan.

REPRESENTATIVE COGHILL compared the loan opportunities provided by the division versus a fisherman applying to a commercial bank, and pointed out the flexibility of the state program. He conceded that it doesn't keep people from going out of business, but said, "I think it's a matter of how do you view the whole world instead of just this one little world."

[9:04:25 AM](#)

REPRESENTATIVE WILSON said:

I agree, you probably said it right there, "it's how you view it," and I guess I'm just [wondering] ... why would you, if a business is successful, ... not ... losing money [make these changes].... [The fund provides] money to the state ... [as a] constant, on-going, good situation, [which] in the long-run [has] kept [many] fishermen ... in business I just have a hard time with the whole concept of why you would look at it in this way [requiring changes]

REPRESENTATIVE COGHILL responded:

Well, it would be just like any automobile financing for example, if you can't make your payments. ... It's based on your ability to get customers, say for your cab. ... There are places where you can get loans that may ... keep you in business. ... Or there are places where they'll just come take your cab away. ... In this particular case we have given pretty extended and flexible terms

[9:05:56 AM](#)

REPRESENTATIVE WILSON stated that because a fisherman is not in control of the industry, he could be the "best-in-the-business" and end up in trouble. She opined that being a fisherman is different from any other profession.

REPRESENTATIVE COGHILL said:

I'll agree, [and] we do have safety nets, in Alaska, all over the place. But there have been many times in my life where an employer comes to me and [says] we don't need you this month and goodbye, and nobody was there to catch me.

CO-CHAIR THOMAS described his personal experience obtaining bank loans for fishing boats and the hardships involved.

[9:08:06 AM](#)

LELA KLINGERT, CEO, Commercial Fishing and Agriculture Bank (CFAB), commented that the refinancing aspect deals with loans through outside lenders, not internally through the commercial fishing loan program. She offered that credit is an art not an exact science. This bill has been in development for five years as a collaborative effort between CFAB and the Division of Investments. She pointed out that the division should be a last resort opportunity; CFAB and commercial banks are able to service the industry with adequate support in most situations.

[9:10:35 AM](#)

REPRESENTATIVE ELKINS moved to report CSHB 304, Version 24-LS0523\I, Kane, 2/29/06, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 304(FSH) was so moved.

HB 484-FISHERY ASSOCIATION REIMBURSEMENT

[9:11:18 AM](#)

CO-CHAIR THOMAS announced that the next order of business would be HOUSE BILL NO. 484, "An Act allowing for revenue received from issuance of additional entry permits to be appropriated for reimbursement to salmon fishery associations."

[9:11:42 AM](#)

REPRESENTATIVE PEGGY WILSON, Alaska State Legislature, testified as prime sponsor of HB 484 paraphrasing from the sponsor statement, which read as follows [original punctuation provided]:

In 2002, the Alaska legislature created salmon fishery associations (AS 16.40.250) to encourage fleet

reduction in the Alaska salmon fisheries. Salmon fishery associations may be formed in salmon fisheries throughout the state to facilitate a permit buyback program.

HB 484 is a housekeeping measure to clarify what may happen to the revenue if the Commercial Fishery Entry Commission should find it necessary to sell (re-issue) permits that have been relinquished under the buyback program authorized under AS 16.40.250.

Under HB 484 the legislature may appropriate revenue from the permit sale (re-issue) to the Association that paid money or incurred debt to remove the permit from the market in the first place.

The state (CFEC) has the responsibility to monitor each limited entry fishery. In the event the CFEC determines more permits are needed in a salmon fishery through an optimum number determination or court action, the provisions of HB 484 would apply.

REPRESENTATIVE WILSON stated that this bill carries the support of the Commercial Fisheries Entry Commissioner (CFEC).

[9:13:49 AM](#)

REPRESENTATIVE ELKINS moved to adopt CSHB 484, Version 24-LS1693\G, Kane, 2/15/06. There being no objection, Version G was before the committee.

[9:14:20 AM](#)

REPRESENTATIVE WILSON explained that the committee substitute stipulates that the fisheries association which provided the original buy-back is the association that receives the payback.

REPRESENTATIVE ELKINS stated his understanding that the original intent of the bill has not changed, and he received conformation to that end from the sponsor.

[9:14:46 AM](#)

FRANK HOMAN, Chairman/Commissioner, Commercial Fisheries Entry Commission (CFEC), stated support for HB 484, and explained that this came up through a situation with one of the fisheries associations. He said that the state, through the office of the

CFEC, retains the ability to monitor all of the limited fisheries, and at sometime, either through in-house review or a court decision, would be required to sell more permits back into a fishery. The CFEC did not want to have the fisheries associations disadvantaged because they borrowed funds to have a private buy-back, thus putting them in a debt responsibility situation, and hence put them at odds with state permit actions.

[9:16:05 AM](#)

REPRESENTATIVE ELKINS asked why this applies only if the association is still carrying debt.

COMMISSIONER HOMAN clarified that it could apply to money expended or debt carried.

[9:16:22 AM](#)

BOB THORSTENSON, Lobbyist, Southeast Alaska Seiners Association; President, United Fishermen of Alaska, stated support for this bill from both the groups that he represents, highlighting that this seemingly simple housekeeping bill has had a "chilling effect" on the fishing industry for decades.

[9:17:22 AM](#)

REPRESENTATIVE ELKINS moved to report CSHB 484, Version 24-LS1693\G, Kane, 2/15/06, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 484(FSH) was so moved.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at [9:17:44 AM](#).